

**SACS Accounting Committee Meeting
June 3, 2003
Yolo County Office of Education**

Minutes

I. Introductions and Notices

- A. The minutes from the past meetings are all on the Internet at <http://www.cde.ca.gov/fiscal/sacs/accountingrecap.htm>

II. Accounting Issues

- A. Continued Discussion: Accounting for Transfers of Direct / Direct Support / Indirect Costs
See **Attachment A** for a detailed discussion of differentiating direct vs. direct support costs, transferring direct vs. direct support costs and codes to use.

B. Accounting for E-Rate Expenditure

CDE is aware that there are two schools of thought on accounting for E-rate discounts. One school of thought is that E-rate expenditures should be accounted for net of the E-rate discount, consistent with accounting for any other type of discount. The other school of thought is that the E-rate discount or rebate should be treated as a grant or subsidy, and the expenditures recorded at their full amounts. CDE recognizes that good arguments can be made for either accounting treatment and is aware that LEAs are split on the issue.

CDE has not previously issued guidance on this topic because before now, neither the Governmental Accounting Standards Board (GASB) nor the Federal Accounting Handbook had taken a stance. However, the National Center for Education Statistics (NCES), to whom CDE reports statewide expenditures for education, indicates that E-rate should be accounted for as a discount and the draft of the newly revised Federal Accounting Handbook contains guidance to this effect. CDE has decided to issue guidance consistent with the Federal Handbook.

Accordingly, in order to standardize the accounting for E-Rate expenditures and discounts, CDE advises that LEAs should account for E-rate as a discount, not a grant or subsidy. LEAs should treat the E-rate discount the same as any other discount, even though the E-rate discount may be a significant amount. LEAs should record the expenditure or the purchase of equipment at net cost, not full value.

LEAs may choose to use a contra-account to record the discount in order to keep the full amount of the expenditure intact for informational purposes. The use of contra-accounts is discussed in CSAM Part I, Procedure 406. For example, the LEA would account for its telephone service costs before discount, and account for the discount as a contra-account:

Object 5900, Communications	Dr	10,000
Object 5901, E-rate discount	Cr	9,000

If the discounted cost of an item of equipment does not meet the LEA’s defined capitalization threshold, the LEA would not capitalize the item, but should include it in the equipment inventory for internal control purposes and should document its replacement cost for insurance purposes.

E-rate rebates for expenditures made in a prior year should be accounted for as revenue.

- C. Reporting Revenue Limit Deficit on Form RL
Use Line 28, All Other Adjustments, to record the revenue limit deficit. We may add back a line for the deficit in the future.

- D. School Facilities Accounting – Local Coding Options
There was discussion of adding the detailed accounts under Objects 6100 and 6200, developed by School Services of California, to CSAM as defined optional accounts. This would ensure that CDE will not define those ranges for other uses in the future. Participants agreed that most LEAs are using the SSC accounts. However some are not (Los Angeles COE, for example). We will discuss this at CDE and provide an update at the next meeting.

- E. Deferred Maintenance Fund – Use of New Resource 6205
There was discussion of the use of new Resource 6205. Participants agreed that Resource 8150, Routine Repair and Maintenance, can be used to make the General Fund contribution for the deferred maintenance match, and then move the Resource 8150 funds into Resource 6205 and spend it there. We have clarified that this is appropriate; according to Brian Breaks of OPSC, they assume that the fact the money is transferred into the Deferred Maintenance Fund meets part of the 3% requirement. Once the money is in Fund 14, it is considered part of the restricted deferred maintenance program and that any money spent in compliance with the LEA's 5-year plan is properly spent. OPSC auditors will be looking to make sure that all expenditures in Fund 14 meet the requirements of the 5-year plan, but they will not be looking to see how the Resource 8150 money is spent as opposed to how the state apportionment is spent.

Please see **Attachment B**, which provides example accounting entries for the use of Resource 6205, including options for booking the transfer of Resource 8150 funds from the General Fund to the Deferred Maintenance Fund.

Please note that this attachment has been modified from the version included in the handout at the meeting and the version e-mailed by Christine Davis on June 10, in order to clarify the accounting for the transfer of Resource 8150 funds.

F. Contributions to Lottery Resource 6300

An inquiry was made as to why contributions can't be made from the unrestricted Lottery Resource 1100 to the restricted Lottery Resource 6300 (Instructional Materials). The rationale behind the requirement that no contributions may be made to the restricted Lottery resource was discussed. We are required to report to the legislature each year the expenditures made with Lottery funds. If funds from other sources are transferred into the Lottery resources (1100 as well as 6300), then the expenditures reported in those resources will reflect more than what just Lottery funds paid for.

It was suggested that we briefly summarize this rationale in the SACS Instruction Manual.

G. Resource 8150, Routine Repair & Maintenance, with Fund 40

An inquiry was made as to why Resource 8150 is not valid in Fund 40, Special Reserve for Capital Projects. Fund 40 is a capital projects fund. Resource 8150 would theoretically be okay in that fund, but the maintenance and operations function (8100) for which those resources are used doesn't belong in a capital projects fund.

Other issues not on the agenda:

H. Reporting Mello-Roos Districts in Funds 49 & 52

Participants had some questions about how to report Mello-Roos districts in Funds 49 and 52. Many are accounting for existing Mello-Roos districts in separate funds, identified with unique CDS numbers to keep them separate from the LEA's books. Now that CDE has established the reporting through Funds 49 and/or 52, should they move the accounting into the new fund or keep it in the established fund? CDE advises that beginning in 2003-2004, LEAs should use the new funds to account for any entity that GAAP requires must be reported as a blended component unit within the LEA's financial statements, such as a Mello-Roos Community Facility District. CDE notes that the new funds are not required for 2002-2003, but that LEAs using the CDE software to automate their GASB 34 conversion entries for government-wide reporting will probably want to use them. If the LEA does not already maintain these funds and cannot easily import the data, the LEA can hand-key the year-end balances directly into the CDE software.

I. Excess Reserve Requirements in Cooperative Project Situations

A question was posed regarding a small district acting as the lead on a cooperative project, hiring personnel who served the other districts, can avoid the extra reserve requirement generated in such a situation. CDE believes that hiring personnel increases liability and that the extra reserve created may not be inappropriate. There may be other ways to avoid increasing the reserve, since the reserve is only one check on the solvency of a LEA.

III. Software Issues

A. Update to Matrix Tables

The latest update (June 1, 2003) was discussed. The updated combination tables can be downloaded from:

<http://www.cde.ca.gov/fiscal/sacs/chart.asp>

B. Reminder: Function 9000 Invalid as of 7/1/03

Function 9000, Other Outgo, is no longer valid effective 07/01/03. LEAs should use the formerly optional Functions 9100, 9200, and 9300.

However, the SACS2003 budget software erroneously allows Function 9000. LEAs should ensure that all applicable transactions reflect the use of either Function 9100, 9200, or 9300 beginning 2003-04. The latest validation table update reflects the correction.

C. SACS2003 – Issues and Questions

The following issues and questions were addressed:

- Software bugs have been identified, and documentation can be found at <http://www.cde.ca.gov/fiscal/software/sacsprobs2003.htm>
- Forms ASSET and DEBT are designated as “required, if applicable” for the budget period in the SACS Software User’s Guide, Attachment A. We will change this designation to “optional” for these two forms for the budget period in the next release of the guide. The rationale is that the schedule of assets is not necessary in the budget report, and debt is reported in the Criteria and Standards form.
- To report the third interim period, use the “year-end projections” option on the Preferences screen of the software.
- The option of printing in landscape format in the software was unfortunately discontinued in the upgraded version of the development software. We have yet to establish an efficient method of including this printing flexibility globally in the software. However, individual forms can be programmed to be flexible, as has been done with the fund forms.

IV. Other Issues and Questions

A. Charter Schools

1. Reporting Requirement – Update

Caryn Becker discussed the status of the charter school financial reporting format. A draft form of the report will be available for public comment in August. The report will then be finalized and sent to the State Board of Education in September for approval. Charters will be required to use this format, beginning 2003-2004. This format will be permanent until we are able to get legislation authorizing funding to assist charters in implementing SACS. The form, as proposed, will be in spreadsheet form, possibly Excel, that will be hand-keyed with data. The report will be submitted to the state through the sponsoring district, regardless of whether the charter financial data is part of the district's financial data.

2. School Codes for Charter School Reporting

Sherri Rowland discussed a proposal that CDE use the 7-digit school code assigned to each charter school for purposes of allowing the LEA flexibility to use whatever means of coding or system of accounting that they prefer in order to produce a separate financial report for each charter reported through the SACS software. The output file from the LEA's accounting system will translate the code used in their system into the 7-digit code assigned by CDE. The seven-digit field will remain all zeros for county offices and school districts.

If the charter school is reported in the General Fund, the separate school code reporting is not necessary. If the charter is reported in Fund 09, then each charter reported there will be split by school code.

We are soliciting comments from the field on this proposal. Please e-mail your comments to Sherri Rowland (srowland@cde.ca.gov) or SACSINFO (SACSINFO@cde.ca.gov).

B. SBX1 18 Issues

The State Controller's Office has issued their opinion on the accrual of deferrals from the 2002-03 fiscal year into 2003-04. It can be found at <http://www.sco.ca.gov/aud/audfy0203.pdf>

Several participant questions were addressed. Some issues were:

- The appropriate accounting for transferring restricted account balances, as stated in our April 15, 2003 financial advisory letter, is the use of Object 8990, Contributions from Restricted Revenues. Object 8998, Flexibility Transfer, is specifically used for the

reallocation of revenue from select categorical programs to other select categorical programs, per provision in the Budget Act.

- Among those restricted account balances that we are aware of as being exempt for purposes of the flexibility afforded in SBX1 18 are the balances of programs authorized by voter-approved initiatives (TUPE, Lottery Instructional Materials, CBET). We have not compiled a list of those and other programs that may be exempt; please contact the program office if there are any doubts about the applicability of a particular program.
- We are compiling some FAQs that we hope to post to the internet in the next week.

C. GASB 34 Workshop Dates
See **Attachment C**.

V. Next Meeting

The next regular meeting is scheduled for October 2, 2003, at the Yolo County Office of Education.

We have also scheduled a meeting to be held July 9, 2003, at CDE to specifically address special education accounting issues and maintenance of effort (MOE) requirements.

Information for both meetings can be found at:

<http://www.cde.ca.gov/fiscal/sacs/accountingupcoming.htm>

Breaking Costs into Direct, Direct Support, and Indirect Costs

If there were enough time in the day, and staff to do it, all costs could be identified as direct costs of a specific program. But, the amount of staff time needed to keep track of who worked on what for every minute of every day would be vastly disproportionate to the benefits that would come of this.

A standardized process, known as Program Cost Accounting, allows us to reasonably determine how much is spent on each program without having to account for every minute of every day for all staff. In Program Cost Accounting, by direct charging most costs, and then distributing the remainder as direct support or indirect (i.e., central administration), a local education agency (LEA) can arrive at a “total” general fund cost for each program.

Why is Direct vs Direct Support So Confusing?

The reason most people get confused about what constitutes direct vs direct support costs is because it can vary LEA to LEA, position to position, depending on the level of detail kept and the actual position being charged. For instance, custodial staff could be charged as direct or direct support, depending on the circumstances:

- A member of the custodial staff that works exclusively for the Alternative Schools program could have their salary & wages charged to Plant Maintenance and Operations (Function 8100) and Alternative Schools (Goal 3100), making this custodial position a direct cost.
- A member of the custodial staff that works in all areas of a school that has many programs (e.g., regular education, alternative schools, opportunity schools, migrant education, etc.) would still be charged to Plant Maintenance and Operations (Function 8100), but rather than having to keep track of how many hours the custodian spends in each program area each day, it is an accepted practice to charge the goal as Undistributed (Goal 0000), making this a direct support cost. As a direct support cost, the custodian’s time can then be distributed proportionately to all programs at the end of the period using the Classroom Unit allocation factor.

So, same type of job, but one is considered a direct cost and one is considered a direct support cost.

General Guidelines for Direct vs Direct Support

The concept of program cost accounting (i.e., identifying all costs with a program, including direct support and indirect costs) has been around for a long time and numerous guidelines exist to help provide consistent data in California. While very few absolutes exist when classifying costs, there are guidelines in the California School Accounting Manual (CSAM) and SACS software that take away most of the guesswork for California’s LEAs:

- Direct costs are those that have both a specific function and goal. They can be charged to the function and goal combination when the original expenditure occurs, or they can be transferred there at a later time.
- Direct support costs are those that have a specific function but the goal is Undistributed (0000 or 9000). Functions that can be combined with goals 0000 or 9000 are:
 - Supervision of Instruction (Functions 2100-2200)
 - Library, Media, Technology and Other Instructional Resources (Functions 2420-2495)
 - School Administration (Function 2700)
 - Pupil Support Services (Functions 3100-3199 & 3900)
 - Plant Maintenance and Operations (Functions 8100-8400)
 - Facilities Rents and Leases (Function 8700)
 - Pupil Transportation (Function 3600)
 - Data Processing Services (Function 7700)
- The schedules in SACS Form PCR (Program Cost Report) and PCRAF (Program Cost Report Allocation Factors) are very helpful in showing what can be considered a direct support cost. For instance:
 - The Schedule of Direct Charged Costs (DCC) shows the function and goal combinations that can have direct costs. (As discussed earlier, some of these same functions can be direct support costs but only when they are combined with goals 0000 or 9000.)
 - The Schedule of Allocation Factors (PCRAF) shows the functions that, when combined with goals 0000 or 9000 (Undistributed) are considered direct support costs.

Transferring Direct vs Direct Support Costs

There are different objects codes for transferring direct vs direct support costs.

Transferring direct costs changes the function, transferring direct support costs does not.

- Direct costs that are accumulated in a “holding” account until the end of the period should be transferred from one function to another using objects 5710 (Transfers of Direct Costs) or 5750 (Transfers of Direct Costs – Interfund). For instance, the costs of supplies for the duplicating machines can be charged at the time of purchase to Function 7200 (Other General Administration), but at the end of the period the costs should be split proportionately between all functions that used the copy machines. In this example, Object 5710 is used for the transfer and the function changes from 7200 (Other General Administration) to the appropriate function(s), for instance Function 1000 (Instruction). Another common example

of using Object 5710 to transfer costs is for field trips – the Function 3600 (Transportation) changes, usually to an instruction function.

- When transferring direct support costs, the function stays the same because the type of activity does not change, only the goal is being charged. To transfer direct support costs for 2003-04 forward, the new objects 7370 and 7380 should be used.

The Splitting of Objects 7310 and 7350

When accounting entries are made to transfer direct support or indirect costs to individual programs, until this year one set of object costs had to take care of both circumstances. In response to requests from LEAs, the one set of objects codes has been expanded/split into two to provide a set for transferring direct support costs and a set for transferring indirect costs. Because the consensus was that the original codes were used more often to transfer indirect costs, the “indirect cost” description was kept for the original codes and the new codes were designated for transferring direct support costs.

Old Objects (use with 2002-03 and before):

- 7310 – Direct Support/Indirect Costs Charges
- 7350 – Direct Support/Indirect Costs for Interfund Charges

New Objects and the Re-titled Original Objects (use with 2003-04 and forward):

- 7310 – Transfers of Indirect Costs
- 7350 – Transfers of Indirect Costs – Interfund
- 7370 – Transfers of Direct Support Costs
- 7380 – Transfers of Direct Support Costs - Interfund

Functions for use with 7310/7350 and 7370/7380

When there was only one set of objects to transfer both direct support and indirect costs, it was necessary to allow a broad range of functions to go with these objects so that both direct support and indirect transfers were covered. Now that there are separate codes for transferring indirect costs and direct support costs, the functions allowable with each can be more specific. For instance:

- Previously: Function 3600 (Pupil Transportation) used to be allowed with objects 7310 and 7350 so that the cost of transporting students, which is a direct support cost, could be transferred from Goal 0000 to specific goals based on the number of Pupils Transported.
- Now: Because Function 3600 (Pupil Transportation) is a direct support cost, these costs must be transferred with the new object codes 7370 and 7380.

For 2003-04 forward, the newly re-titled objects 7310 and 7350 are only valid with those functions that are considered indirect costs, which include Other General Administration (Functions 7200 and 7600) and Data Processing Services (Function 7700). The attached table shows the valid function by object combinations for objects 7310, 7350, 7370 and 7380 starting in 2003-04.

Accounting Entries for Fund 14, Deferred Maintenance
REVISED June 13, 2003

The new Resource 6205 Deferred Maintenance Apportionment was established because when the GASB 34 software lumps all the funds for presentation of the district-wide statements, it cannot identify the deferred maintenance projects in Fund 14 as program grants and contribution revenues. Previously we have used Resource 0000 Unrestricted in a restricted fund. Our logic before GASB 34 was that in fund accounting, the fund itself restricted the money. That logic is still good for fund accounting, but it fails when the funds are combined.

1. Resource 6205 takes the place of Resource 0000 in Fund 14. This includes not only the state's deferred maintenance allowance, but also the LEA's contribution. The LEA will do a one-time entry to recode whatever remains in Resource 0000 in Fund 14 into Resource 6205. This can be done at the end of 2002-03 so that when Fund 14 is opened in the new year, the 2003-04 beginning balance is in Resource 6205, or Resource 0000 can carryover into 2003-04 and the entry can be done at the beginning of the year. Warning: Do not close with the ending fund balance in Resource 0000 in 2002-03 and then open the new year with the beginning fund balance in Resource 6205. You must make the transferring entry.

14-0000-0-0000-0000-8980	\$150,123		To close Resource 0000
14-0000-0-0000-0000-9110		\$150,123	
14-6205-0-0000-0000-9110	\$150,123		To open Resource 6205
14-6205-0-0000-0000-8980		\$150,123	

2. When a matching contribution is made from the General Fund, it too will be identified as Resource 6205 in the Deferred Maintenance Fund. However, the money is usually coming from unrestricted funding in the General Fund.

01-0000-0-0000-9300-7615	\$500,000		General Fund to Fund 14
01-0000-0-0000-0000-9110		\$500,000	
14-6205-0-0000-0000-9110	\$500,000		Fund 14 from General Fund
14-6205-0-0000-0000-8915		\$500,000	

3. Some LEAs choose to make their matching contribution from the restricted money that has been set aside, per the requirement of Prop 1A, in Resource 8150, Ongoing & Major Maintenance. (Note that Resource 8100 Routine Repair and Maintenance may not be used for this match.) The contribution from Resource 8150 in the General Fund can be identified as Resource 6205 in the Deferred Maintenance Fund:

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01-8150-0-0000-9300-7615	\$125,000		Fund 01, RMA to Fund 14
01-8150-0-0000-0000-9110		\$125,000	
14-6205-0-0000-0000-9110	\$125,000		Fund 14 from Fund 01,RMA
14-6205-0-0000-0000-8915		\$125,000	

Alternatively, in order to create a clear audit trail, Resource 8150 may be used in the Deferred Maintenance Fund to document the transfer in of the contribution:

01-8150-0-0000-9300-7615	\$125,000		RMA to Def Maint Fund
01-8150-0-0000-0000-9110		\$125,000	
14-8150-0-0000-0000-9110	\$125,000		Def Maint Fund from RMA
14-8150-0-0000-0000-8915		\$125,000	

The money can then be contributed to Resource 6205 for expenditure:

14-8150-0-0000-0000-8990	\$125,000		RMA to Def Maint Acct
14-8150-0-0000-0000-9110		\$125,000	
14-6205-0-0000-0000-9110	\$125,000		Def Maint Acct from RMA
14-6205-0-0000-0000-8990		\$125,000	

GASB 34 Workshops

Workshop dates and locations:

June 17	Ventura
June 30	Ontario
July 8	Sunnyvale
July 9	Santa Rosa
July 10	Sacramento
July 11	Fresno

For registration information, call CASBO at 916 447 3783 or visit their website at www.casbo.org.